INFORMATION

Stanislaus County

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May 5, 1978

To: Supervisors

From: George Gaekle

Subject: Information about Senate Bill 1 and Proposition 8

Sometime ago we sent you an analysis of Senate Bill 1--Proposition 8 and Proposition 13 which was prepared by the California Taxpayers' Association. Here is another copy along with an analysis of SB 1--Proposition 8 by Senator Peter Behr, the author.

Senate Bill 1 is now law. However, for it to become fully operational, it requires the voters approve Proposition 8 on the June ballot. There is also a provision in Senate Bill 1 that it will be automatically repealed if the voters approve Proposition 13, the Jarvis-Gann Initiative.

Senate Bill 1 and Proposition 8 have two distinct kinds of impact on county government procedures. SB 1 provides for revenue limits on local governments. Proposition 8, if approved by the voters, would provide for a split assessment roll which would result in a different tax rate for homeowners than for other kinds of property.

If Proposition 8 is approved, its main work burden will fall on the assessor's office, although other departments, such as the auditor-controller, will be affected. Work is now being done pursuant to the legal requirements of SB 1. The state is reimbursing counties for this work.

For the homeowner, SB 1 and Proposition 8 provide at least a 30% reduction in his property tax each year. He will be relieved of the burden of property taxes to support Medi-Cal and the Federal-State mandated welfare programs. All property owners will have protection from excessive property tax increases in future years because of the revenue limits contained in SB 1.

(over)

The impact of revenue limits will be your primary concern. SB 1 means you can't increase property taxes from one year to the next more than a cost-of-living indicator will permit. That cost-of-living indicator is called the "gross national product deflator," a yardstick used by the federal government to measure the cost of goods and services purchased by state and local government. This index has increased in recent years by about six percent annually. In addition, there can be an increase in the tax base resulting from new construction or substantial improvements to existing property. State wide, this is running about two percent.

So, to put it simply, the property taxes required for the support of county government next year can't be higher than six to eight percent over what was required this year.

We are preparing the county budget as we always have. If Proposition 8 passes and Proposition 13 loses, the final budget you approve will be subject to SB 1's revenue limit provisions. If when you consider the final budget the property taxes required exceed the limit provided by SB 1, the expenditure programs will have to be cut back at least to the tax limit permitted. We won't know what that is until later in the summer when the 1977-78 books are closed and all other revenue information is known.

In preparing the proposed budget, our goal is to keep the property tax requirement below a six to eight percent increase limit. You will receive the proposed budget in June.

Attachments: Summary of Proposition 8 and SB 1 by Senator Behr
Analysis of Proposition 8, SB 1 and Proposition 13 by California Taxpayers' Association

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Senate

CALIFORNIA LEGISLATURE

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MARIN, SONOMA, MENDOCINO, LAKE, HUMBOLDT
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JOINT COMMITTEE:
FAIRS ALLOCATION AND CLASSIFICATION

April 5, 1978

SYNOPSIS OF PROP. 8/ SB 1

SB 1 (Behr), Chapter 24-Statutes of 1978, is a comprehensive property tax relief measure approved by the Governor on March 3, 1978. Its immediate enactment hinges on the outcome of the June 6, 1978 statewide election. ON JUNE 7, SB 1 WILL BE REPEALED UNLESS PROPOSITION 8 PASSES AND PROPOSITION 13 FAILS.

SB 1 contains five separate programs. Each deals with a different aspect of the property tax problem faced by all California taxpayers.

INCREASING PROPERTY ASSESSMENTS

The problem: The rapid increase in property values, in particular the increase in value of owner-occupied homes, has resulted in greatly increased property tax bills and greatly increased revenues for local government.

Prop. 8/ SB 1: Property tax bills for business and residential property increase for one or both of two reasons: 1) an increase in assessed valuation, or 2) an increase in the property tax rate. Under Prop. 8/ SB 1 the tax rates of counties, cities and special districts must drop as property assessments increase. The provisions of the local revenue limit require that as property values rise the local agencies must lower their property tax rates so that at most they realize a 6-1/4% increase (for fiscal 78-79) over their previous year's revenue.

SB 1 specifies that annual increases in county, city and special district revenues from property taxes cannot exceed the percentage increase in the GNP index for the cost of local government services for any one year. This GNP statewide inflation index is estimated to be 6-1/4% for fiscal 78-79. The local revenue limit in Prop. 8/ SB 1 is ongoing and applies to all property. It has the effect of limiting, on a countywide average, the increase in a property owner's tax bill to 6-1/4% for 78-79.

The local revenue limit stops the growth of revenue from property taxes for counties, cities, and special districts. By permitting the property tax revenues to grow, at most, at the rate of inflation for the cost of providing government services, Prop. 8/ SB 1 requires local agencies to turn to cutting their costs when considering funding new programs. The local revenue limit has as its base year either 1976-77 or 1977-78; at the counties discretion. Both base years have already passed so any new property assessments will fall under the local revenue limitations in Prop. 8/ SB 1.

THE TREND FOR OWNER-OCCUPIED PROPERTY TO PAY AN INCREASING PERCENTAGE OF THE TOTAL PROPERTY TAX COLLECTED

The problem: Because home values rise much more rapidly than for other property, homeowners over time have paid an increasing percentage of the total property tax bill relative to business and industry.

Prop. 8/ SB 1 is the only property tax relief measure which reverses the historical trend for homeowners to bear an increasing property tax burden relative to other property. By utilizing the split tax roll (i.e. owner-occupied property/all other property) permitted under Prop. 8 and by applying the same revenue limits for both sides of the split roll, SB 1 permits the tax rate for owner-occupied homes to drop below that for other property.

Since, under SB 1's local revenue limit, the tax rate drops as the assessment increases, owner-occupied homes, which experience the most rapid assessment rises, will have their tax rates drop below that for business or industrial property. All property is under the same revenue limit and all will experience tax rate drops as assessments sharply increase.

As an example, if all owner-occupied homes in a county rose in value an average of 20%, as happened in 1977, and all business and industrial property rose by 12%, then for fiscal 78-79, homes would have their local agency property tax rates dropped by at least 13-3/4 % and business and industry would experience a property tax rate drop of at least 5-3/4%.

THE NEED FOR IMMEDIATE PROPERTY TAX RELIEF

The problem: Homeowners have had their property tax bills vastly increased in recent years so even with future property tax revenue limits they need tax relief now.

SB 1 provides at least a 30% cut in homeowner property taxes beginning in 1978-79 and continuing each year thereafter to any homeowner who owns and occupies his own home, condominium, duplex, or who owns a mobilehome and the property on which it is located. This property tax reduction is in addition to the present homeowners' exemption.

This 30% cut is accomplished by: 1) the state buy-out of the total present and future homeowner property tax contributions to the major county health and welfare costs: SSI/SSP, Medi-Cal, and AFDC, and 2) the state requirement that all local agencies cut property tax rates so that the total tax rate for homeowners is reduced by 30%

of their property tax bill. The tax rate cut made by counties, cities, special districts and school districts is fully reimbursed by the state from its ongoing surplus revenue.

IMPACT OF PROPERTY TAXES ON RENTERS

The problem: Renters have experienced increases in their monthly rents due to increased property taxes on the property they rent.

SB 1 doubles the existing income tax credit for all renters in the state, from $37 to $75, and extends the credit to public assistance recipients for the first time.

The renter's credit in SB 1 is 30% of the amount it is estimated renters pay in property taxes through their rent. Prop. 8/ SB 1 raises this renter's property tax equivalent from the present annual level of $220 to $250. This renter credit is available to mobilehome owners who rent space in a mobilehome park.

IMPACT OF PROPERTY TAXES ON SENIOR CITIZENS

The problem: Senior citizen homeowners and renters, many of whom are on fixed incomes, have been more severely hurt by increasing property taxes than most others.

SB 1 targets special, additional relief to lower income senior citizen homeowners and renters, by adding extra benefits to the present Senior Citizen's Property Tax Assistance Program, and by opening the program to new recipients.

For the first time, senior citizen renters and homeowners will compute their property tax relief under the same assistance schedules and income limits. Homeowners age 62 or older with incomes of $13,000 or less will be eligible for property tax relief which is in addition to the 30% property tax reduction all homeowners receive under Prop. 8/ SB 1. These seniors will receive property tax reductions ranging from 10% to 96% of their property taxes remaining after the 30% reduction.

Renters age 62 or older with incomes of $13,000 or less will be eligible for additional renter relief ranging from 10% to 96% of the statutory renter's property tax equivalent of $250. This renter relief is in addition to the $75 all renters receive.

Prop. 8/ SB 1 expands the Senior Citizen's Property Tax Assistance program to make the surviving spouse of an individual who had qualified for the program as either a homeowner or a renter eligible for the same assistance as the deceased spouse, regardless of the surviving spouse's age.

STATE REVENUE LIMIT

The problem: The state collects "excess taxes" resulting in the state's very large General Fund surplus. Although Prop. 8/ SB 1 establishes an ongoing program to return the surplus revenue through property tax relief, in the event that state revenues continue to exceed state expenditures, what can prevent this type of a surplus from occurring again?

SB 1 imposes revenue limitations on the state in the following manner: if the increase in tax revenues collected by the state over the previous year's tax revenues is a percentage increase greater than the percentage increase in the growth in personal income for the state multiplied by 1.2, then this excess percentage of revenue will go into a special Excess Revenue Fund. Rather than being spent through the normal budget process, such excess funds are designated for future taxpayer relief and other limited uses.

Since 1970 state tax revenues have exceeded this proposed limit 4 times. In the likely event that the state once again exceeds the limit, SB 1 provides a procedure for the return of these excess funds to the taxpayer. SB 1 provides $1.4 billion of property tax relief without an increase in state taxes, and without significant local revenue losses which will drastically impair the quality and extent of present local public services.

The following provides answers to several of the more common questions on Prop. 8 and SB 1:

Are any existing taxes increased by Prop. 8/ SB 1 or any new taxes levied?

No, and no new authority to raise taxes in the future is contained in Prop. 8/ SB 1 (The current DMV fees or any other fees or taxes paid by mobilehome owners are not increased by any provision of Prop. 8/ SB 1).

How long will the provisions of Prop. 8/ SB 1 remain effective?

The levels of homeowner and renter relief in Prop. 8/ SB 1 are not tied to any projected funding levels or surplus and will remain in effect unless repealed through legislation by the Legislature. The state and local revenue limits shall also remain in effect unless the Legislature acts to repeal them. There are no time limits attached to any provisions of Prop. 8/ SB 1.

The homeowner/renter relief costs of Prop. 8/ SB 1 can be fully funded from the surplus revenue collected by the state for at least 5 years. The 5-year projection is used as a matter of principle because longer projections of state revenue become exceedingly difficult to make. It is anticipated that future state expenditures can be held down sufficiently to permit the funding of the tax relief in Prop. 8/ SB 1 indefinitely into the future by the state revenues generated from present state tax levels.

Is the 30% reduction in property taxes a one-time reduction?

No, the 30% reduction applies to each individual's property tax bill every year. If increases in property taxes occur, the 30% reduction applies to the full value of the increased tax bill. It should be noted that the California Legislature has never acted to repeal any homeowner's property tax exemption and the expectation is that this property exemption will similarily never be repealed.

When does SB 1 take effect?

SB 1 will go into effect only if Proposition 8 is passed by the voters and Proposition 13 is defeated at the June 6th general election. If Prop. 8/ SB 1 is approved by the voters it takes effect on July 1, 1978.

What exactly is Proposition 8?

Proposition 8 authorizes a differential property tax rate for owner-occupied homes and for all other property. It is necessary to permit the local revenue limits called for in SB 1.

The full and exact text of Prop. 8 is: "Sec. 9.5. The Legislature may provide for the taxation of owner-occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner-occupied dwellings. (emphasis added)

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TABLE SUMMARIES OF SB 1 TAX RELIEF AND FISCAL EFFECTS

The following tables provide examples of tax relief under SB 1 for homeowners under age 62 (Table I), for homeowners aged 62 and older Table II), and for renters (Table III).
A summary of the fiscal effects of SB 1 on the state is shown in Table IV, and on local government in Table V.

TABLE I

EXAMPLES OF TOTAL STATE HOMEOWNER PROPERTY TAX RELIEF

UNDER SB 1 COMPARED TO PRESENT LAW

FOR HOMEOWNERS OF ALL INCOMES UNDER AGE 62

Home Fair Market	Current Tax Bill(a)	SB 1 Tax Bill	SB 1 Tax Relief Savings (b)
$ 30,000	$ 617	$ 423	$ 194
40,000	885	606	279
50,000	1,153	790	363
60,000	1,422	974	448
80,000	1,958	1,341	617
100,000	2,495	1,709	786

(a) After reducing assessed value of the home by the current $1,750 Homeowners' Exemption (HOE)

(b) Revenue limit rate reductions and 30% tax rate reduction (including "welfare buy-out." Homeowners in areas with higher than average tax bills will receive greater relief.

Assumptions: 1978-79 estimates of a $10.73 tax rate (per $100 assessed value) under current law, and a $7.35 tax rate under SB 1.

TABLE II

ADDITIONAL PROPERTY TAX RELIEF UNDER SB 1

FOR

HOMEOWNERS AGED 62 OR OLDER

OWNING A $50,000 HOME

Household Income	Current Net Taxes Paid	SB 1 Net Taxes Paid	Savings Under SB I
$ 3,000 (and below)	$ 46	$ 32	$ 14$
6,000	496	189	307
9,000	1,015	520	495
12,000	1,015	670	437
13,001 (and above)	1,015	788	365

Household Income	Current Tax Bill (a)	Current *SCPTA Relief	SB 1 Tax Bill (b)	SCPTA SB 1 Relief
$ 3,000 (and below)	$ 1,153	$ 1,107	$ 788	$ 756
6,000	1,153	657	788	599
9,000	1,153	138	788	268
12,000	1,153	46	788	118
13,001 (and above)	1,153	0	788	0

(a) taxes based on a $10.73 average statewide tax rate; after HOE

(b) after HOE, revenue limit and 30% rate reductions

* SCPTA (Senior Citizens Property Tax Assistance)

TABLE III

EXAMPLES OF TOTAL STATE RENTER RELIEF UNDER SB 1 COMPARED TO PRESENT LAW

(a)

- - - - - - RENTERS UNDER 62 - - - - - - -

Household Income	PRESENT LAW All Renters (not available to welfare recipients)	SB 1 All Renters
all incomes	$ 37	$ 75

- - - - - RENTERS 62 AND OLDER - - - - - - -

Household Income	PRESENT LAW All Renters (not available to welfare recipients with incomes over $5,000	SB 1 All Renters (c)
$2,000	$215	$315
$4,000	83	315
$6,000	37	265
$8,000	37	190
$10,000	37	135
$13,000	37	100
$15,000 and above	37	75

(a) renters' credit only

(b) renters' present $37 credit plus present SCPTA relief only

(c) renters' $75 credit plus SB 1 proposed SCPTA relief

TABLE IV

SUMMARY OF

STATE FISCAL EFFECT

(In millions)

	1978-79	1979-80	1980-81	1981-82
30% Homeowners' Relief (including buy-out)	$1,205	$1,352	$1,486	$1,628
Renters' Credit	165	170	175	180
Senior Citizens' Property Tax Assistance: Homeowners	35	36	37	38
Senior Citizens' Property Tax Assistance: Renters	60	59	57	56
State Assumption of Medi-Cal, SSI/SSP cost increase in excess of local revenue limits	14	25	34	44
State Administration and Local Mandated Cost Reimbursement	Unknown	-	-	-
Interaction [(a)]	-62	-161	-199	-232
Net State Effect	$1,417	$1,481	$1,584	$1,714

Source: Department of Finance data

(a) eq., the local revenue limit under SB 1 over time lowers the costs of existing property tax relief programs

TABLE V

LOCAL FISCAL EFFECT

	1978-79	1979-80	1980-81	1981-82
		(In millions)		
Property Tax Levies (a)	$-1,309	$-1,612	$-1,934	$-2,311
State Reimbursement: County "Welfare Buy-out"	397	439	481	523
State Reimbursement: Remainder of 30% Rate Reductions	808	913	1,005	1,105
State Assumption of Medi-Cal, SSI/SSP Cost increases in excess of local revenue limit	14	25	34	44
Local Mandated Cost/ State Reimbursement	Unknown	-	-	-
Net Local Effect (b)	$ - 90	$ -235	$ -414	$ -639

(a) Reflects combined effect of local revenue limit, buyout of homeowners' share of county health and welfare costs, and remainder of 30% homeowners' rate reduction; includes reduction of homeowners' exemption subventions due to effect of lower tax rates

(b) "Net Local Effect" is equal to the reduction in revenue due to property tax revenue limits, less the amount of state "hold harmless" payments on county Medi-Cal and SSI/SSP contributions. The state reimburses all other local costs and revenue losses.

Source: Department of Finance data

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Prop. 13 vs. Prop. 8/SB 1 — An analysis

At the June 6 statewide election, California voters presumably will choose between two approaches to property tax relief — Proposition 8 and Proposition 13. The issue before the voters and the way in which they resolve it makes this one of the most important elections in recent California history.

Proposition 8, through Senate Bill 1, offers homeowners immediate property tax cuts of 30% and more than doubles current levels of relief for renters.

It also contains revenue limits that will provide ongoing relief to all taxpayers in the magnitude of $1 billion annually by the mid-1980's. The revenue limits in Proposition 8 require a larger reduction in tax rates for owner-occupied homes when the increase in home assessments is greater than for other property.

While local governments would sustain a significant cut in property tax revenues, they could, with tighter budgeting, continue to function and continue to provide essential services. The complete implementation of Proposition 8 is specified in its companion statute, SB 1, signed by Governor Brown on March 3.

Proposition 13 gives all property taxpayers — homeowners, business, and agriculture — an approximate 50% cut in property taxes, and would hold assessments to 2% growth per year. Renters are offered no direct relief, but would probably receive some relief as a function of rental market competition.

Proposition 13, the so-called Jarvis/Gann proposal, is a product of the initiative process. The proposed constitutional amendment received about twice the number of petition signatures necessary to qualify it for the statewide ballot.

Popular support for the proposal has been generated by the enormous increases in homeowner property taxes in recent years and the continued inability of the Legislature to enact a property tax relief program despite a growing General Fund surplus. The prevailing public attitude on the property tax issue is, according to various public opinion polls, a mixture of frustration, anger, and lack of confidence in the possibility or viability of a legislative solution.

Regardless of Proposition 13's fate at the polls, it has already had an important impact; it undoubtedly spurred the Legislature to act and it undoubtedly influenced the design of the final legislative product which returns the General Fund surplus over the next four years to the taxpayers who, by and large, contributed to it in the first place.

Beyond its basic provisions (discussed below), Proposition 13 does not present a plan for government program cuts or for replacement revenues which would balance out the $7 billion property tax cut it would require. Despite this (or perhaps because of this) the proposition has a basic appeal that may carry it to success on June 6.

Prop. 8/SB 1: basic description

1. Local Revenue Limits. The most important, and perhaps least-noticed, feature of SB 1 is the element of property tax relief it provides through a local government property tax revenue limit. While schools are already subject to revenue limits, cities, counties and special districts are not. SB 1 closes that gap.

The revenue limit which is to be used is the Gross National Product (GNP) Deflator, a yardstick which measures the cost of goods and services purchased by state and local governments. This index has been going up in recent years by about 6.25% annually (substantially below the average annual increase for local government expenditures in California). In addition, local taxing agencies would be allowed increases in their tax base resulting from new construction or substantial improvements to existing property. Since this would increase property tax revenues by about another 2%, the effective limit would be approximately 8.25% per year. This limitation is expected to provide ongoing relief for all taxpayers in the magnitude of $1 billion by 1983-84 (increases in property taxes on single-family homes have been averaging 14% per year; business property tax levies have increased at 9%-10% per year).

Proposition 8 would amend the constitution to permit the enactment of the new revenue limit contained in SB 1. The proposition does just two things: (1) It authorizes a *split rate* to permit a lower tax rate for owner-occupied dwellings than for all other property, and (2) it expressly protects commercial taxpayers from a shift that would finance homeowner relief from commercial property tax dollars.

Under the SB 1 revenue limits, the first step in setting the local agency tax rate would be to establish the rate for single-family owner-occupied residential property. In setting the rate, only property common to current and prior-year home tax rolls is used, and the rate would be limited to raise no more property tax revenue than is equal to the rate of increase in the GNP Deflator. At this point, an important new step occurs: *The homeowner rate would be set on the basis of homeowner values only.* This would permit a large reduction in homeowner tax rates when the rate of increase in home assessments is greater than valuation growth in "all other" property. Under these conditions, the homeowners' rate is driven down more than it would be if the tax base included all property. This rate is also applied to new construction on the homeowner roll.

The rate for all other property (business, industry, agriculture, etc.) would then be set against the *same* revenue limit, treating properties common to prior and current-year rolls — and new construction — in the same manner. The tax base used in setting this rate is the *total* valuation of the taxing jurisdiction, *including* owner-occupied dwellings — just as at present. (See Table I, on page 2, for an illustration of the rate-setting process under SB 1.)

In the event that valuation growth for "all other" property were to drive the rate for "all other" *below* the homeowner rate, SB 1 provides that the homeowner rate must be reduced to a rate equal to that for "all other" property. Therefore, homeowners would also benefit from large business-valuation increases.

If a taxing agency wished to reduce the homeowner tax rate, it would be able to do so, provided that the businesss rate were reduced in the *same ratio* as the homeowner rate. The maximum tax rate could be exceeded by a vote of the people, but it would have to be increased for homeowners and business by *equal cents per $100* of assessed value. Business properties are thereby protected against shift of the tax burden as a result of local action.

(Continued on Page 3)

TABLE 1: COMPUTATION OF SB 1 SPLIT RATES FOR A HYPOTHETICAL TAXING JURISDICTION

The following example of how the split rate works shows that, assuming (1) a base-year tax rate of $3.00, (2) a growth in business valuation of 15%, (3) a growth in home valuation of 20%, and (4) a growth in the revenue limit of 6.25%, the 1978-79 business rate would be reduced to $2.77 and the 1978-79 home rate would be reduced to $2.65.

ASSUMPTIONS:

1977-78 (Base Year)
County Tax Rate: $3.00

Owner-occupied Residential Assessed Value	$10,000,000
All Other Property Assessed Value	20,000,000
Total 1977-78 Assessed Value	$30,000,000

Base Year Revenue —

Owner-occupied Residential Property	$ 300,000
All Other Property	600,000
	$ 900,000

1978-79 (Budget Year)
GNP Deflator Growth: 6.25%

New Owner-occupied Residential Assessed Value	$12,000,000 (20% growth)
New Construction, Owner-occupied Residential	200,000 (2% growth)
All Other Property Assessed Value	23,000,000 (15% growth)
New Construction, All Other Property	400,000 (2% growth)
Total 1978-79 Assessed Value	$35,600,000

FOUR BASIC STEPS:

1. To Set Owner-occupied Residential Rate:

a. 1977-78 home property tax revenue X 106.25 (GNP Deflator) = $ 318,750

b. 1978-79 assessed value base, home property, excluding new construction 12,000,000

c. Compute 1978-79 rate (a ÷ b) 2.65

2. To Set All Other Property Tax Rate:

a. 1977-78 *total* property tax revenue X 106.25 (GNP Deflator) = $ 956,250

b. 1978-79 assessed value base, total property, excluding new construction = 35,000,000

c. Compute tentative 1978-79 all other property rate (a ÷ b) = 2.73

d. Compute revenue from all other property:

$23,000,000 (all other assessed value excluding new construction)
X 2.73
$ 627,900

3. Test Total Property Tax Revenue Increase to Determine if Equal to Growth in GNP Deflator

Home Revenue	$318,750
All Other Revenue	627,900
	$946,650 (5.18%)

Revenue Guarantee $956,250
Shortage $ - 9,600

4. First Go to "All Other" Property to Raise Shortage

(because "all other" received benefit of "home" valuation in setting its rate). Calculation:

$9,600 ÷ $23,000,000 = .04 cents

Final rate, homes: $2.65
Final rate, all other: $2.77

Property tax revenue, "all other" property (total "all other" assessed value, *including* new construction):
$2.77 X $23,400,000 = $648,100

Property tax revenue, "home" property (total "home" assessed value, *including* new construction):
$2.65 X $12,200,000 = $323,300

SAVINGS:

SB 1 Property Tax Revenue Reduction:
(assumes $3.00 1978-79 rate, without SB 1)

$35,600,000 X $3.00 =	$1,068,000
Maximum Revenue under SB 1:	971,480
Reduction	$ 96,520

"All Other" Savings ($702,000 - $648,180) = $53,820
"Home" Savings ($366,000 - $323,300) = $42,700

Note: The above is an example of how the split rate works under a given set of assumptions chosen for purposes of simplicity only. Revenue and Taxation Code Section 2261 provides for a number of alternative calculations when other conditions prevail. If, for example, the maximum revenue limit for the hypothetical taxing jurisdiction had not been met by increasing the "all other" rate by .04 cents, 2261 provides that the rate for "homes" could then be increased until it is met. It should also be noted that while the jurisdiction did not have to tax at the SB 1 limit, doing so offers more valid comparison with existing law.

In any calculation of taxing-district revenues under SB 1 there are two general tests which must be met. They are:

(1) For owner-occupied, single-family residential property, property taxes may increase no more than the percentage increase in the GNP Deflator index, or by application of the tax rate imposed on "all other" property, *whichever* is lower.

(2) For all other property, property taxes may increase no more than the percentage increase in the GNP Deflator.

In both cases, the tax rates derived from these limits are applied to annual new construction, which produces revenue beyond the GNP Deflator index.

TABLE II: PROPERTY TAX RELIEF FROM 30% TAX CUT, SB1

	Example 1	Example 2	Example 3
Fair Market Value	$30,000.00	$60,000.00	$100,000.00
Assessed Value	7,500.00	15,000.00	25,000.00
Homeowners Exemption	1,750.00	1,750.00	1,750.00
New Assessed Value	5,750.00	13,250.00	23,250.00
Tax Rate (before Revenue Limits)	$10.36	$10.36	$10.36
Tax Due	$595.70	$1,372.70	$2,408.70
Tax Reduction (30%)	178.71	411.81	722.61
Tax Due (after SB 1)	416.99	960.89	1,686.09

Source: California Association of Realtors

(Continued from Page 1)

The amounts of property tax relief provided to all taxpayers as a result of the SB 1 revenue limits, estimated over the next five years by the Assembly Revenue and Taxation Committee, are as follows:

TABLE III: PROPERTY TAX RELIEF TO HOMEOWNERS AND BUSINESS FROM SB 1 REVENUE LIMITS
(S Millions)

	1978-79	1979-80	1980-81	1981-82	1982-83
Homeowners	$104	$203	$307	$426	$545
Business	0	57	141	257	422
Total	$104	$260	$448	$683	$967

Source: Assembly Revenue and Taxation Committee

2. Direct Homeowner Relief. In addition to the relief provided homeowners under the dual revenue limit, the new homeowner tax rate would no longer include any amounts for adult welfare (SSI/SSP), Medi-Cal, and family assistance (AFDC) costs. Since SB 1 guarantees 30% homeowner tax relief, if the so-called "welfare buyout" does not achieve the 30% level *further* tax rate reductions would be made to ensure it. This feature is also authorized by Proposition 8. (For non-homeowner taxpayers the bill would institute a hold-harmless provision requiring counties to hold their contributions for those welfare costs to the *lesser* of the annual change in the GNP deflator or the annual change in assessed value.) The homeowner relief described above is in *addition* to the existing homeowner exemption. New *direct* homeowner relief provided during the first four years of SB 1 would be $5.67 billion. This is in addition to the *estimated* $1.6 billion in relief which would be provided to homeowners over the next five years as a result of the new revenue limits.

3. Renter Relief. The current renters' income tax credit of $37 would be increased to $75 effective with the 1978 income year, and the prohibition against welfare recipient entitlement to the credit would be removed. The four-year cost of renter relief provided for under the bill is estimated at about $700 million.

4. Senior Citizen Relief. Homeowners and renters over 62 now receive other property tax relief in addition to the homeowners' exemption. Assistance is given on (1) a percentage of the property taxes paid by senior citizens with annual incomes of less than $12,000 and (2) on the first $8,500 of assessed value. Under SB 1, senior citizen homeowners with incomes of up to $13,000 would receive additional assistance. Assessed valuation limits would be removed entirely and replaced with a cap on maximum relief of $1,500. Unmarried surviving spouses under age 62 would continue to receive assistance if their spouse had been receiving benefits before death.

Renters age 62 and over, with incomes below $5,000, now receive tax assistance based on a statutory determination that annual rent payments include $220 in property tax costs. Senate Bill 1 would provide renter property tax relief for senior citizens with incomes of up to $13,000, while the property tax component of rent would be statutorily stipulated at $250. Unmarried surviving spouses would be eligible to continue to receive renter benefits, even if below age 62.

5. State Revenue Limit. Senate Bill 1 provides an *implicit* state government revenue limit which may prove more effective than the explicit limit that is tied to the growth in personal income. The implicit limit is a function of the following simple fact: The direct property tax relief provided by SB 1 would virtually exhaust projected state surplus revenues over the next five years, requiring the Legislature to cut projected spending by a compounded $2.4 billion over the same period. Past state spending, beyond inflationary increases, has generally increased by $200 million annually for new programs; SB 1 would require new state spending to be cut back to a maximum of $70 million per year.

Proposition 13: basic description

Proposition 13 has four basic objectives: (1) a property tax revenue limit; (2) an assessment freeze; (3) a new legislative two-thirds vote requirement for state tax increases; and (4) a new two-thirds vote requirement for increases in local taxes. Proposition 13 would take effect on July 1, 1978, with the exception of the two-thirds vote requirement for raising state taxes, which would be effective on passage.

1. The Limit. Beginning with the 1978-79 fiscal year, Proposition 13 would limit the amount of property taxes that could be collected from an owner of county assessed *real* property to 1% of the property's full cash value. Proposition 13 does not mention county assessed personal property (such as business inventories), or state assessed property (such as public utilities), but the Office of the Legislative Counsel advises that the 1% limit would apply to *all* types of taxable property.

Proposition 13 does not permit local voters to raise the 1% limit; that would require a new constitutional amendment. The limit could be exceeded only to repay bonded debt approved by the voters *before* July 1, 1978. The limit could not be exceeded to repay bonded debt approved by the voters on or after July 1, 1978.

The reduced property tax revenues which could be raised under the 1% limit would be collected by the counties and then distributed "according to law to the districts within the counties."

At present there is no state law which would provide for the distribution of these revenues. Therefore it is impossible to determine how the substantial reductions in property tax revenues would be distributed among cities, counties, schools and special districts.

Proposition 13 refers only to the distribution of property tax revenues to "districts within the counties." It does not say whether cities and counties (which technically are not "districts") could share in these revenues. However, the legislative counsel advises that unless the ballot arguments by the proponents of Proposition 13 make it clear that counties and cities are *not* to receive property taxes, they could continue to receive some portion of these revenues.

2. The Freeze. Initially, Proposition 13 would roll back the current assessed values of real property to the values shown on the 1975-76 assessment roll. County assessors could adjust the values shown on the 1975-76 assessment roll if these values were lower than the estimated market value as of March 1, 1975. The adjusted values could then be increased by no more than 2% per year as long as the same taxpayer continued to own the property. For property which changes ownership, is sold or is newly constructed after March 1, 1975, the assessed value would be set at the appraised (or market) value at the time of transfer, sale or

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construction. As a result, two identical properties with the same market value could have different assessed values for tax purposes if one of them has been sold since March 1, 1975.

Because of the rollback of assessed values to 1975-76, the limit actually would begin at *less* than 1% — perhaps at 7/10 of 1%. Because of the limitation on the growth of assessed values at 2% per year, the limitations would become tighter each year, becoming 2/10 or 3/10 of 1% of actual market value by the early 1980s.

3. The Legislative 2/3 Vote. Currently, state taxes can be increased by a majority vote of both houses of the Legislature and approval by the governor. Proposition 13 would require a two-thirds vote by the Legislature to increase state taxes and would prohibit the Legislature from enacting any new taxes based on the value or sale of real property.

4. The Local 2/3 Vote for "Special" Taxes. Proposition 13 would authorize cities, counties, special districts and school districts to impose unspecified "special" taxes only if they receive approval by two-thirds of the "qualified electors." Based on the California Elections Code, a "qualified elector" appears to be an American citizen 18 years of age who has resided in the voting district 29 days.

Any "special" taxes so authorized could not be based on the value or sale of real property. The legislative counsel advises that provisions in the existing constitution would prohibit general law cities, counties, school districts and special districts from imposing new "special" taxes without specific approval by the Legislature. Such restrictions would limit the ability of these local governments, even with local voter approval, to replace property tax losses resulting from the adoption of Proposition 13. However, increases in rates of existing non-property taxes which local governments are now authorized to levy would not appear to be prohibited under Proposition 13.

TABLE IV: SUMMARY OF FINANCIAL IMPACT, PROPOSITION 13

Local Government	1978-79 (in millions)
Costs	
Property Tax Revenues	$ -7,031
Federal Revenue Sharing	- 45
Savings	
Medi-Cal, SSI/SSP Contributions	+ 65
Net Effect	$ -7,011
State Government	
Costs	
Federal Revenue Sharing	$ - 22
School "Recapture" Revenue; STRS Costs	- 55
Medi-Cal, SSI/SSP Contributions	- 65
Savings	
Homeowners' Exemption Payments	+400
Business Inventory and Miscellaneous Subventions for Property Losses	+235
Senior Citizens Property Tax Assistance Renters Assistance, and Deferral Reimbursements	+65
Personal Income/Bank and Corporation Tax Revenues	+295
Net Effect	$+ 853

Source: Assembly Revenue and Taxation Committee

PROPOSITION 13 IMPACT ON TAXPAYERS

1. Homeowners. Proposition 13 would cause homeowner property taxes to drop substantially. Although the amounts of reduction would vary, a house assessed at $52,500 in 1978-79 could receive a property tax reduction of $745 (Assembly Revenue and Taxation Committee estimate, based on a rollback to a 1975 value of $45,000 and an average statewide tax rate of $10.73). Thereafter, property tax increases on that property could not exceed 2% per year, unless the home is sold, or ownership changes.

However, a significant portion of this reduction would automatically go for higher state and federal income taxes due to loss of property tax deductibility. For example, at an adjusted gross income of $25,000 (family of four, with a property tax reduction of $745), federal income tax would increase approximately $210, and state income tax would increase approximately $45. At this point the *net* tax savings as a result of Proposition 13 would be $490.

There could also be state and local government responses to Proposition 13 which could reduce — or totally offset — the savings in homeowner property taxes. The net pocketbook effect of Proposition 13 on homeowners in general is impossible to estimate because it depends on (1) how much current property tax revenue would need to be replaced after services were cut, and (2) the availability and appropriateness of already authorized non-property taxes which might be increased by state and local governments. Net effects would vary geographically and would also depend on the size of present household property tax burden. Despite the variables it should be noted that family budgets could be subject, under Proposition 13, to:

- New or higher user fees and charges for water, sewage, garbage, libraries, recreation, and other public services in areas where these services are now partially or totally subsidized by property taxes.

- Increases in insurance premiums in areas where budget cutbacks are necessary in fire and police protection, and for water standby charges and street lighting.

- Higher family transportation costs due to increases in motor vehicle in-lieu taxes, fuel taxes, and transit system fares, in addition to the direct family costs of replacing the present school bus system.

- Higher household energy and telephone service costs through new or higher utility rates which would come as a result of utility company pass-ons of any higher taxes levied on these companies by the Legislature and approved by the Public Utilities Commission.

- Higher costs of consumer goods and services due to the pass-on of any new business taxes enacted by the Legislature.

2. Renters. Renters make up 45% of California households. Property taxes represent 17% to 23% of rent payments, depending on local rental markets. Although residential rental properties

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are included under the limit and the freeze, and while it seems likely that rental market forces will generate some rent reductions as a result of lower property taxes, there is no requirement for rent reductions. Meanwhile, renters would be subject to any general tax increases or pass-ons of higher taxes, as reflected by the costs of consumer goods and services.

3. Commercial, Industrial and Agricultural Properties. Real-income properties would receive a sharp property tax rollback, the amount differing by current local tax rates. Income-producing properties account for about two-thirds of the state's assessed valuation, so they would receive the major portion of the direct benefit from the tax rollback. The *net* effect upon business, after replacement taxes are levied and/or services are cut, is not predictable. (The total increase in individual and business federal income taxes resulting from the loss of property tax deductibility has been estimated at $1.9 billion.)

As one example of the unpredictability of Proposition 13, the California Builders' Council, a representative of the California construction industry, has commented:

"Of direct concern to builders and developers will be these results from the initiative:

- *Resistance among potential new home purchasers to leave an existing low-taxed home to buy a new home which is relatively more heavily taxed.*

- *Bonds financed by property taxes could no longer be used to finance construction of public facilities such as water treatment plants, schools, off-site improvements, fire stations, etc.*

- *The potential cutoff of any property tax revenues to cities and counties will cause them to impose a wider variety of fees and charges.*

- *No reduction of the assessed value of real property caught in a moratorium or declining value market."*

Since the current property tax crisis has primarily involved the owner-occupied, single-family residence, it seems unlikely that the Legislature and local government would initially look to homes for any replacement revenues needed under Proposition 13.

The most likely prospect is for the Legislature to make Proposition 13 apply only to homeowners. This could be done by adopting a constitutional amendment to be placed on the November, 1978, ballot which would read very much like Proposition 13, but which would apply only to homeowners (or perhaps only to residential property). The replacement revenue problem — at current spending levels — would be cut from $7 billion to about $2.7 billion (if applied only to single-family, owner-occupied residences). Several split-assessment roll proposals such as this have been offered in recent years, and have received bi-partisan authorship and support. In fact, a measure to extend Proposition 13 to homeowners only has been introduced in SCA 54 (Briggs). If Proposition 13 should pass in June, a proposal similar to SCA 54 could pass in November. Thus, the "relief" to business and agriculture would disappear.

The ability of industries or individual firms to retain the property tax savings or to pass on an alternative tax would depend upon the market structure for each product, including the amount of out-of-state competition. In general, reducing the property tax would lower the current disincentive to invest in real properties in California.

PROPOSITION 13 IMPACT ON LOCAL GOVERNMENTS, SCHOOLS

The share of total income that comes from property tax revenues is, of course, higher for some types of local governments and jurisdictions than it is for others.

- Schools, on a statewide basis, receive about 50% of their income from the property tax, but individual districts range from 20% to nearly 90% in their property tax dependence.

- Counties, on a statewide basis, receive about 35% of their income from the property tax, but individual counties range from 24% to 39% in their reliance on the property tax.

- Cities, on a statewide basis, receive 23% of their income from the property tax, but individual cities range from zero to 60% in their reliance on the property tax.

- Special districts range from zero to 100% in property tax reliance. For example, fire districts receive about 90% of their income from the property tax.

Schools. Half of all property taxes go for public schools, and half of all school revenues come from the property tax. The Assembly Education Committee has estimated that Proposition 13 would effect a cut in school property taxes of $3.691 billion. This represents about 31% of all projected school revenues (K-14, $11.785 billion) in 1978-79.

Eighty-five percent of all school general fund expenditures go for certificated and classified salaries and employee benefits. Since spending cuts would strive to protect the instructional program, priorities for cuts would probably start with the staffing of support services such as counseling, food services, transportation, administration, and maintenance. After this, cuts could be made in elective course offerings, such as music, art, drama, physical education, and in extra-curricular activities, such as marching bands, football, and other sports. Community services could also be cut. Pupil-teacher ratios might have to be adjusted for most districts' and class sizes could be significantly increased as teachers were laid off.

On a school district by school district basis, there would be a variable property tax revenue impact under Proposition 13. For analysis purposes, it seems logical to assume that revenues from the 1% property tax levy would be pro-rated according to rates levied in the prior (base) year. Existing composite tax rates would be reduced from present levels to $4.00 (or an equivalent percentage of the remaining tax) for all purposes. While this assumption represents perhaps the simplest approach, serious difficulties occur in working the allocations through intra-county and intra-district composite rates, which vary widely.

Composite rates have a considerable range; in Los Angeles County they go from about $7.00 to over $21.00. If a school district with a $7.00 rate in a $21.00 tax code area is to carry the same share (33%) of the composite rate under the $4.00 limit, its new maximum rate would be $1.33. However, a district with a $3.50 rate and a 50% share in a $7.00 tax code area would be allocated $2.00 under a $4.00 rate limit. The district with the $7.00 rate would sustain a 81% cut while the district that had the $3.50 rate would receive a 43% cut.

The problems of allocation of rate and apportionment of revenues under Proposition 13 apply not just to school districts, but to all local taxing jurisdictions. For example:

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● If allocation of the limited property taxes is based on proportional shares of composite rates in a given base year, how are future changes in district needs to be accommodated? Should a declining enrollment (or declining population) district continue to receive the same relative share of property tax revenue while a growth district faces increasing revenue problems?

● If, for administrative simplicity, the 1% tax is levied countywide — and the concept of district tax base is abandoned — apportionment of revenues could simply be based on the proportional share of the property tax levy in the base year. Under this approach, the problem of reflecting changing needs would still occur. In addition, districts with a growing property tax base (which may or may not be associated with growing revenue needs) would export property tax to other taxpayers and taxing jurisdictions within a county. This would violate the benefit principle of taxation.

● Statutory and constitutional questions are raised by the revenue distribution provision of Proposition 13. Under present law, counties can raise revenues only for "county purposes." Is allocation to another agency a county purpose? Is such an allocation a "gift of public funds" under Article XVI, Section 6 of the Constitution?

With regard to state replacement of lost property tax revenues, there is another constitutional question of importance to schools and all local governments. Article XVI, Section 8 states:

"From all state revenues there shall first be set apart the monies to be applied by the state for support of the public school system and public institutions of higher education." This constitutionally mandated priority for distribution of scarce replacement revenues could favor schools at the expense of counties, cities, and special districts.

While payments to continue the retirement of voter-approved debt are outside of the limit, bond specialists have raised a question as to School Building Corporation Bonds. These bonds are not, strictly speaking, voter-approved debt. This method of debt-financing involves the formation of a "corporation" and the call for an override election which, by a simple majority, will authorize a district to pay "rent"to the school building corporation which constructs the needed facilities. The rent serves as revenue for school building bond redemption. Although the rent payment is voter-authorized, it is not, strictly speaking, a debt, and there is no clause in Proposition 13 permitting a voter-approved override to be outside the limit. There is a strong possibility, then, that redemption of these bonds will have to be accommodated within the limit, thereby further reducing property tax revenues for operational uses.

Local Governments. The present reliance on the property tax and the eventual formula for distribution of increasingly limited property tax revenues are clearly the two most crucial factors to the continued functioning of local governments under Proposition 13.

For the 12 small California cities which do not levy a property tax, Proposition 13 would present no direct problem. If, however, some of the local services provided to residents of these cities come from special districts, some of these cities could suddenly find themselves involved with new municipal service responsibilities. And some of the wealthiest bedroom communities in the state, such as Piedmont, Hidden Hills, Rancho Palos Verdes, Belvedere, Ross, Larkspur, San Anselmo, and Hillsborough, would suddendly find it very difficult or not possible at all to make ends meet, since their reliance on the property tax ranges from 38% to 67% of total revenues. For the cities of Los Angeles, Sacramento, and others which spend more for police and fire costs than is raised by the property tax, Proposition 13 can be expected to cut into these basic services.

Reallocations of existing property tax revenues could be undertaken to protect emergency services. The so-called "amenities" of public spending — libraries, parks, and recreation — could be jettisoned or severely curtailed. Some — or all — of the property taxes spent for the operation, maintenance, and construction of city streets ($331 million in 1975-76), as well as the property taxes which subsidize public transit ($258 million in 1975-76), could be diverted to emergency services. Shortfalls in street and transit programs could then be made up by increases in motor vehicle in-lieu and fuel taxes and transit fares.

With respect to counties, the most logical immediate response to Proposition 13 would be for the state to assume *all* health and welfare costs. The 1977-78 property tax requirements for the three major cost programs are:

TABLE V: MAJOR PROPERTY TAX COSTS OF WELFARE

Program	1977-78 Property Tax Requirement (millions)
1. AFDC	$ 550.0
2. Medi-Cal	411.6
3. SSI/SSP (adult aid)	165.0
Total	$1,126.6 billion

Source: County Supervisors Association of California

Since the total county property tax loss under Proposition 13 would be about $2.2 billion, the removal of all health and welfare costs from the property tax would still leave over $1 billion to be cut from the county property tax. For some counties, this would require a cut in basic public protection services.

Special Districts. According to a state controller's 1975-76 report, there are 3,378 non-enterprise, single-purpose special districts in California which perform a variety of functions. Total expenditures for these districts was about $708 million. Of total revenues of $734 million, $332 million, or about 45%, came from the property tax. Here are examples of some of the types of districts involved:

TABLE VI: SPECIAL DISTRICT SAMPLE, PROPERTY TAX RELIANCE

Number of Districts	Type	Property Tax As % of Revenues
37	Ambulance Service	54%
597	Fire Protection	79
87	Flood Control and Water Conservation	74
120	Land Reclamation and Levee Maintenance	36
34	Library Service	39
901	Lighting and Lighting Maintenance	88
261	Recreation and Park	64

Source: state controller

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Since special districts vary so widely in their revenue structure, generalizations on the impact of Proposition 13 on special districts cannot be stated with any descriptive accuracy. About all that can be said is that special districts that rely most heavily on the property tax are particularly vulnerable under Proposition 13. A study of the Proposition 13 impact on a specific fire district in suburban Sacramento showed that the district would sustain a 70% cut in property tax levy (from 1977-78 to 1978-79). This kind of cut appears to be fairly typical of what fire districts would experience under Proposition 13. Other single-purpose special districts, especially those able to charge user fees for services, might, through a combination of fee increases and service cutbacks, be better able to survive as a functioning unit of government.

PROPOSITION 13: CONFLICTS WITH LEGAL OBLIGATIONS, RESPONSIBILITIES

Proposition 13 would affect, or come into conflict with, many legal obligations and responsibilities common to all local governments and school districts. Examples of these impacts are:

●**Future Bonding Capability**. The measure would effectively prohibit any *new* property taxes for general obligation bonds, by any vote whatever. Future general obligation bonds would have to be financed from within a steadily declining valuation base and be authorized by two-thirds of the "qualified electors." This would present practical, if not legal, prohibitions against future general obligation bonds, a conclusion which is emphatically underscored by municipal bond analyst George Friedlander, of Smith, Barney, Harris, Upham, and Co. He also notes that the relative quality of existing voted bonded debt could increase because of the special status they possess (i.e. being outside the limit).

●**Status of Existing Non-voted Debt.** It is difficult, according to Friedlander, to assess the impact of Proposition 13 on lease-purchase bonds. Such bond issues are secured by rental payments from a municipal government (the lesee) to the issuing authority (the lessor). Lease-purchases have been used to finance government buildings, convention and sports facilities, hospitals, parking structures, etc. Since lease-purchase bonds are not voter-approved, they fall outside the limit. There is more than $1.2 billion in outstanding lease-purchase debt in California. Again, according to Friedlander, "the fate of...(these) issues...under Jarvis-Gann depends...on the non-ad valorem tax revenues available to the lessee."

●**Impact on Existing Redevelopment Debt Based on Tax Increment Financing.** Tax-increment financing of redevelopment projects is a device that has been extensively used in California. In redevelopment, land which is under-utilized is developed for "higher and better use," causing the total value of the redeveloped area to increase. As value increases, the assessor re-assesses property upward, causing tax yield to increase. Under tax-increment financing, the taxes on the increased value which are accrued since the beginning of a project are allowed to be used by the redevelopment agency to pay for improvements needed to redevelop land, including demolition, grading, drainage, streets, and various other improvements. After the projects are paid for, the incremental value reverts back to the original taxing jurisdictions. There are a variety of devices used to secure redevelopment capital-improvement debt. The most frequently used devise is the tax allocation bond, a revenue bond. About $900 million of the total tax-increment debt of the $1.5 billion is in tax allocation bonds in California.

Since funds to pay existing redevelopment agency debt are not excluded from either the limit or the freeze under Proposition 13, much of this debt could go into default. Some of the problems for redevelopment projects would appear to be:

1. *The 2% per year limit on assessed valuation growth,* a feature critical to redevelopment projects. With no growth in tax base beyond an annual 2% (plus new construction), the revenues to pay off existing debt might not be forthcoming.

2. *County spending priorities.* Would existing redevelopment agency debt be recognized as a "prior claim" on limited property tax revenues in the distribution process?

3. *Legal governmental status.* Would redevelopment agencies even qualify as entities eligible for receipt of property tax funds?

4. *Future redevelopment under tax-increment financing.* The financing method would appear to be precluded unless the value of "new construction," assessed at "full cash value," were adequate to carry redevelopment costs past the first year on the assessment roll. Thereafter, the allowed assessed valuation growth would be held to 2% per year. Could developers be expected to come up with a larger share of off-site development costs?

5. *Assessment rollback.* Values would be rolled back to 1975-76 under Proposition 13. This would seem to place any tax-increment-financed redevelopment project that is dependent on growth above 1975-76 values in immediate peril.

●**Mandated Programs.** Many responsibilities performed by local governments and schools are mandated by state law. In some cases, the level of service is also mandated. Which mandates will be carried out under a property tax cut?

●**Contracts.** Existing contracts must be honored. Broken contracts would subject the local agency to lawsuits to recover the outstanding obligation and, perhaps, to secure additional damages. However, paying off contract commitments on a timely basis would require cutbacks in other services where greater budgetary flexibility exists.

●**Emergencies.** It is unclear what would happen if there were a major flood, snowstorm, fire, earthquake or riot, and additional city/county expenditures were required. Unlike previous tax limitation proposals, this initiative does not provide for the ability of local agencies to levy taxes *without* voter approval in order to cope with public emergencies.

●**Uncontrolled Costs.** It is also unclear what would happen if a small county were to sustain extraordinary expenses, such as court costs associated with a lengthy trial, search and rescue costs, etc. What happens when Congress increases employer contributions to OASDI is also subject to speculation, as is what would happen if a city were to be mandated to replace its water treatment facilities.

●**Matching Funds.** Many local programs involve a sharing of costs by the state or federal government on a matching-fund basis. Some programs require "maintenance of (tax) effort" in order to continue to qualify for aid. For example, one such program, Public Law 81-874, is intended to provide federal assistance to local school districts which are "impacted" by pupils from nearby federal installations. This federal assistance is a form of property tax relief. The reduction in the "maintenance of effort" factor which would occur under Proposition 13 would result in a loss of about $20 million in federal impact aid in California.

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QUESTIONS REQUIRING LEGISLATIVE ANSWERS

The full meaning of all of Proposition 13's provisions cannot be known until the Legislature acts to statutorily implement it sometime after its supposed enactment. The following would appear to be some of the questions which taxpayers and local governments would want to address to the Legislature, should Proposition 13 pass:

1. **Assessment Inequities?** Is there any way to avoid, through statute, the potential for payment of significantly different property tax bills for identical local services by properties with identical market values? This appears to be required by a Proposition 13 provision calling for reappraisal of property upon resale.

2. **Higher Taxes on Change in Ownership?** What constitutes a "change in ownership"? Would reassessment of a corporate property occur upon a reorganization, a change in name, a consolidation, a divestiture? Would reassessment occur on disposition of property in dissolution of marriages or when property is placed in joint tenancy or passed on to heirs?

3. **Transfer Tax Disallowed?** Since 1968 California cities and counties have imposed a tax of 55-cents-per-$500-of-value on the total sales price of real properties. Would it remain in effect?

4. **Overassessments Possible?** The underlying assumption in going to 1975-76 assessments is that they will be lower, and this is generally true. However, many properties have *declined* in value since 1975-76 — particularly in core city areas. What happens to properties which have declined in value as a result of fire, flood, or other calamity? What happens to the thousands of properties which have had assessments reduced below 1975-76 values as a result of the granting of assessment appeals?

5. **Greater Taxes on Timber?** A return to 1975-76 values would mean that timberland (real property) would include the value of timber standing in 1975-76 (whether or not the timber is still standing). In addition, since timber was recently placed on a yield tax at point of harvest, a return to ad valorem taxation for timber could result in double taxation, unless the yield tax were repealed.

6. **What is "New Construction"?** Although reassessment of "newly constructed" property is required, it is not defined. Does it apply to improvements or additions to existing property? Does it apply to a multi-million dollar addition to an existing plant?

7. **Are State-assessed Properties Unfrozen?** Section 2 of Proposition 13 refers only to "county assessor's valuation," which would seem to exclude real property valued by the state Board of Equalization (utilities and common carriers). Are state-assessed properties excluded from the "rollback" of values to 1975-76?

8. **Distribution System?** How would the limited property tax revenue be distributed? On the basis of each district's share of composite rate for each tax code area? Would the distribution of property tax revenues be "frozen" at each district's relative share of property tax levy in some base year? If so, how would changing revenue needs be accommodated? How would any property tax revenue be allocated to new districts?

9. **Cities, Counties Excluded?** Does distribution to "districts" exclude cities and counties from receiving property tax revenues?

10. **Uniform Tax Rates?** Must a district apply uniform tax rates throughout the district, or can it alter its rates from tax code area to tax code area to "use up" the 1% limit? If a district may alter its rates by tax code area, then people could be charged differing amounts for similar services.

Finally, and perhaps the most important question of all: What would happen to local control of local government under Proposition 13? Is there any way to prevent greater state financing from becoming greater state control?

Text of Proposition 13

That Article XIII A is added to the Constitution to read:

Section 1.

[a] The maximum amount of any ad valorem tax on real property shall not exceed One percent [1%] of the full cash value of such property. The one percent [1%] tax to be collected by the counties and apportioned according to law to the districts within the counties.

[b] The limitation provided for in subdivision [a] shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

[a] The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

[b] The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent [2%] for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

Text of Proposition 8

Sec. 9.5. The Legislature may provide for the taxation of owner-occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner-occupied dwellings.

Sources: *Material for this article was drawn and adapted in part from analyses and other releases made available by the Assembly Committees on Revenue and Taxation, Education, Transportation, and Ways and Means; the Senate Local Government Committee, legislative analyst, and the state Department of Finance.*

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